

# Indofood Sukses Makmur Tbk (INDF IJ)

## In-line with Expectation

In the midst of unfavourable situation, INDF recorded a low single digit growth in 1Q20. This growth was mainly supported by Consumer Branded Product (CBP) and Distribution segment. This was an opposite to Bogasari and Agribusiness segment which recorded contraction, pressured by lower commodity prices. Nevertheless, at this point, we expect better growth shall be recorded as Consumer Confidence Index (CCI) was higher and Rupiah stays stable.

### 1Q20 Results in line with Our Expectation

Indofood Sukses Makmur (INDF) 1Q20 revenue improved by 8.7% YoY to IDR 19.7tn, which came in-line with our expectation representing 26% of our FY20 estimates. Meanwhile, INDF reported a net profit of IDR 1.4tn or grew by 4.0% YoY. As COGS recorded a decline, gross margin and operating margin expanded by 230 bps to 32.6% and 160 bps to 14.9%, respectively. This further led to operating profit surging by 12.6% to IDR 2.8tn. Finance expenses decreased by half to IDR239mn, resulting net profit margin increased by 20 bps to 7.3%. As a note, domestic sales was still the largest contributor with c.89% of total revenue, followed by Arab Saudi as the second largest contributor which also posted a 39.7% YoY rise in sales at IDR366bn.

### Segment Performance Evaluation

Consumer Branded Product (CBP) booked moderate level sales growth (+5.9% YoY), we see this positive growth was contributed by consumers that likely to stock up on basic goods such as packaged food. Besides, distribution segment recorded positive performance in 1Q20 with 9.3% sales growth (vs -30.5% in 1Q19). However, agribusiness segment attributed the weak quarterly revenue to a decrease in its plantation business due to lower crude palm oil prices (CPO), along with edible and oil fats (EOF) business that also recorded a slight drop in sales. We view the agribusiness segment will slowly recover as lockdown eases slightly, which would in turn improve global demand from major consumers particularly China and India. In addition, Bogasari segment posted a decline of -5.8% YoY in sales, despite lower wheat price in 1Q20.

### Impact from Pinehill Acquisition

According to disclosure, ICBP will finance the Pinehill transaction through a combination of internal funds as much as USD300mn and debt from third party. (Please see our report on ICBP for more details on the potential acquisition). Meanwhile, this acquisition has negative reaction from investors as seen from INDF share price which has dropped ~20.5% since the public announcement. If the transaction materializes after EGMS, we estimate that INDF leverage could surge as consequence of loans than ICBP (as subsidiary) will to pay for the transaction.

### Maintain Buy Recommendation with Target Price of IDR8,000

We currently maintain BUY recommendation on INDF with Target Price of IDR8,000 which was derived using a sum-of-the-parts (SOTP) methodology to better reflect the value of each unit. We view that its strong consumer branded product, especially in noodles, should provide a solid long-term growth outlook. In addition, we believe in a potential recovery for agribusiness segment on the back of stable rupiah and higher commodity prices trend.

### Indofood Sukses Makmur Tbk | Summary (IDR bn)

	2019A	2020E	2021F	2022F
Sales	76,593	72,967	74,518	76,668
<i>Sales growth</i>	4.4%	-4.7%	2.1%	2.9%
EBITDA	12,840	12,866	14,001	15,140
Net Profit	4,908	4,581	4,934	5,380
EPS (IDR)	559	522	562	613
<i>EPS growth</i>	17.8%	-6.7%	7.7%	9.1%
NPM	6.4%	6.3%	6.6%	7.0%
ROE	9.4%	8.3%	8.5%	8.8%
ROA	5.1%	4.6%	4.7%	4.9%
P/E	14.2x	11.6x	14.2x	13.0x
P/BV	1.3x	0.9x	1.2x	1.1x
EV/EBITDA	8.1x	7.0x	7.6x	6.7x
<i>Dividend yield</i>	2.2%	4.6%	3.1%	2.8%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## BUY

<b>Target Price</b>	<b>8,000</b>
Consensus Price (IDR)	8,238
TP to Consensus Price	-2.9%
vs. Last Price	+22.1%

### Shares data

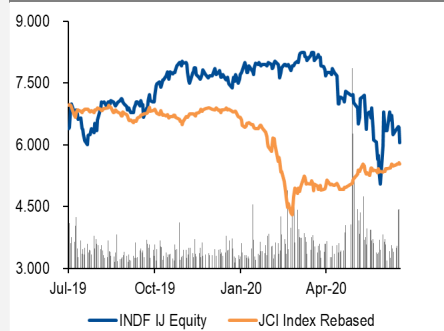
Last Price (IDR)	6,550
Price date as of	Jul 17, 2020
52 wk range (Hi/Lo)	8,250 / 5,050
Free float (%)	49.9
Outstanding sh.(mn)	8,780
Market Cap (IDR bn)	54,219
Market Cap (USD mn)	3,505
Avg. Trd Vol - 3M (mn)	10.04
Avg. Trd Val - 3M (bn)	68.08
Foreign Ownership	100.0%

### Consumer Staples

#### Packaged Foods

Bloomberg	INDF IJ
Reuters	INDF.IK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-17.9%	-0.0%	-4.8%	-6.1%
Rel. Ret.	-19.2%	-1.8%	9.6%	-20.6%

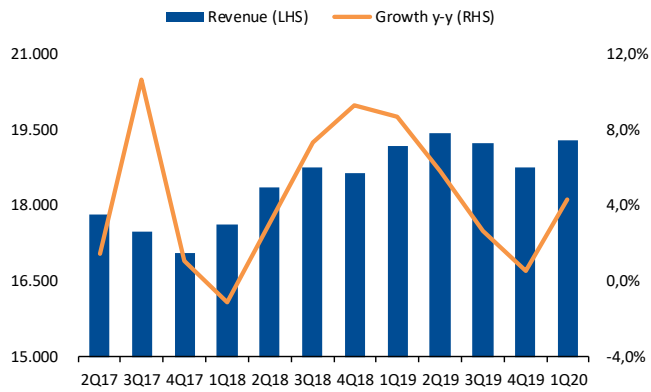
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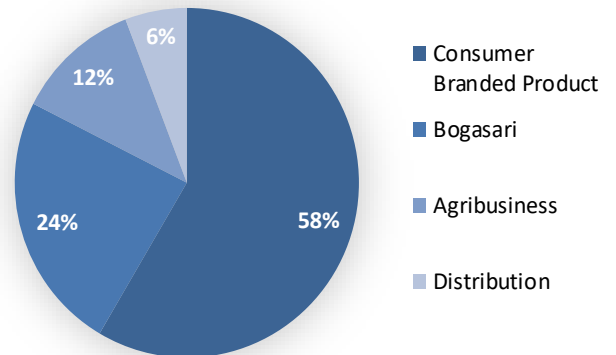
## Performance Highlights

INDF's quarterly revenues | 2Q17 - 1Q20



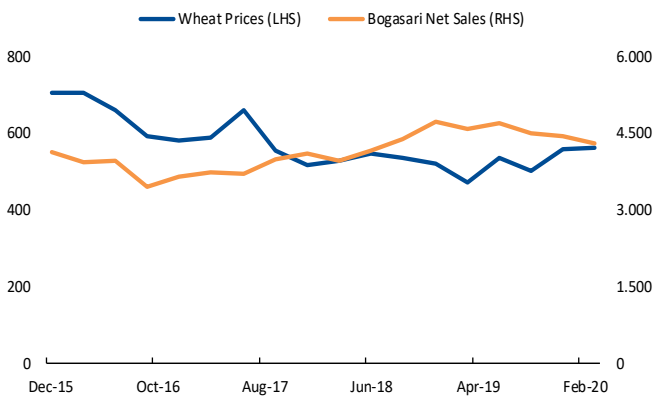
Source: Company Data, NHKSI Research

Sales Breakdown | 1Q20



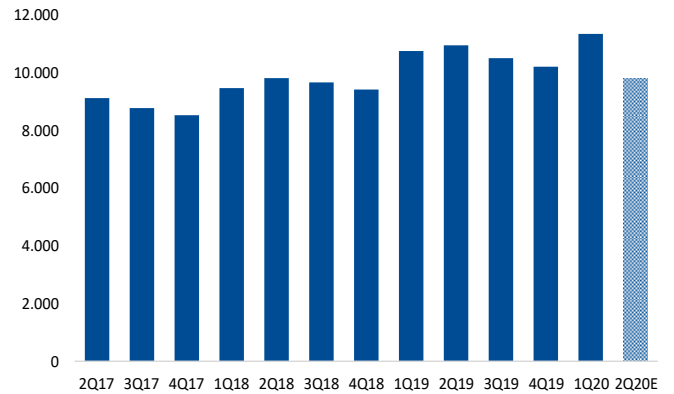
Source: Company Data, NHKSI Research

Wheat Prices vs. Flour Net Sales | 4Q15—1Q20



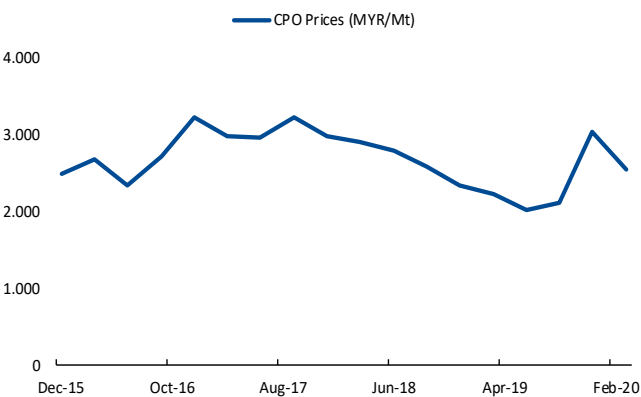
Source: Bloomberg, NHKSI Research

Sales of Consumer-Branded Products | 2Q17– 2Q20E



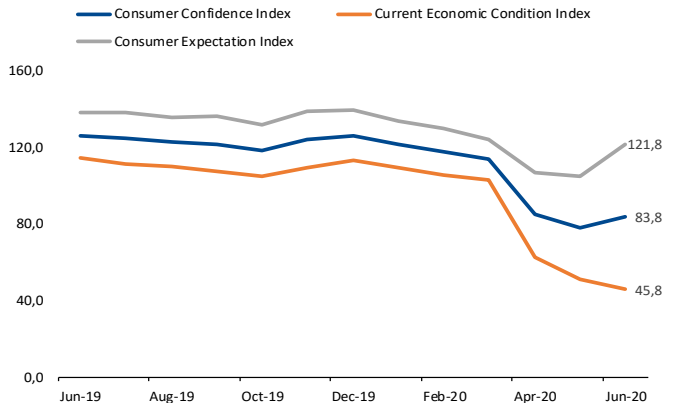
Source: Company Data, NHKSI Research

Trends in CPO Prices | 4Q15-1Q20



Source: Bloomberg, NHKSI Research

Indonesia's Consumer Confidence Index | 2019 - 2020



Source: Bloomberg, NHKSI Research

## 1Q20's review (IDR bn)

	1Q19	2Q19	3Q19	4Q19	1Q20					2Q20E
					Actual	Estimate	y-y	q-q	surprise	
Sales	19,170	19,439	19,236	18,748	19,305	18,985	0,7%	3.0%	1.7%	17,110
Gross Profit	5,797	5,797	5,563	5,638	5,717	4,661	-1.4%	1.4%	22.7%	4,316
<i>Gross Margin</i>	30.2%	29.8%	28.9%	30.1%	29.6%	24.6%	-0.6%	-0.5%	5.1%	25.2%
EBIT	2,555	2,201	2,325	2,711	2,878	2,711	12.6%	6.1%	6.1%	1,493
<i>EBIT Margin</i>	13.3%	11.3%	12.1%	14.5%	14.9%	14.3%	1.6%	0.4%	0.6%	8.7%
<b>Net Profit</b>	<b>1,349</b>	<b>1,196</b>	<b>986</b>	<b>1,377</b>	<b>1,404</b>	<b>1,377</b>	<b>4.0%</b>	<b>1.9%</b>	<b>1.9%</b>	<b>625</b>
<i>Net Margin</i>	7.0%	6.2%	5.1%	7.3%	7.3%	7.3%	0.2%	-0.1%	0.0%	3.7%

Source: Bloomberg, NHKSI research

## Revisions to Earnings (IDR bn)

		2020E	2021F	2022F
Sales	-Revised	72.967	74.518	76.668
	-Previous	77.831	80.038	82.508
	-Change	-6,2%	-6,9%	-7,1%
Gross Profit	-Revised	21.376	22.485	23.760
	-Previous	21.931	24.173	25.492
	-Change	-2,5%	-7,0%	-6,8%
Gross Margin	-Revised	29,3%	30,2%	31,0%
	-Previous	28,2%	30,2%	30,9%
EBIT	-Revised	9.064	9.911	10.823
	-Previous	8.798	10.667	11.570
	-Change	3,0%	-7,1%	-6,5%
EBIT Margin	-Revised	12,4%	13,3%	14,1%
	-Previous	11,3%	13,3%	14,0%
Net Profit	-Revised	<b>4.581</b>	<b>4.934</b>	<b>5.380</b>
	-Previous	4.908	4.476	4.934
	-Change	-6,7%	10,2%	9,1%
Net Margin	-Revised	6,3%	6,6%	7,0%
	-Previous	6,3%	5,6%	6,0%

Source: NHKSI research

## A Glance at INDF

Indofood (INDF) has transformed into a Total Food Solutions company within the last two decades as INDF's operational activities cover all phases of food manufacturing— to start from production and processing of raw materials to product distribution in the markets. INDF is well known for its credibility as a leading company in each of its business segments, and its operational activities capitalize on economies of scale and resilient business model consisting of 4 integrated strategic business segments (Group).

The consumer branded products (CBP) is supported by the strength of its products. The CBP segment produces varied consumer-branded products, i.e., instant noodles, dairy, snacks foods, food seasonings, nutrition & special foods, and beverages. Meanwhile, the Bogasari segment equipped with shipping & packaging business units produces wheat flour and pasta. Furthermore, the agribusiness segment covers activities, i.e., researches & development, seed breeding, oil palm cultivation & milling to the production and marketing of branded cooking oil, margarine and shortening. The segment also cultivates and processes rubber, sugar cane, and other crops. In addition, the distribution segment distributes most of consumer products manufactured by Indofood and its subsidiaries as well as by the third parties, to markets.

### Asia Pacific-based Consumer Company

Company	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Margin	ROE LTM	P/E LTM	P/BV
<b>Indonesia</b>									
INDF	3.911	6.947	5.419	350	14,69%	6,5%	13,2%	11,7x	1,5x
ICBP	7.339	2.796	3.040	401	20,94%	13,2%	22,6%	19,1x	4,0x
<b>Japan</b>									
Nissin Foods Holdings	9.350	5.350	4.313	270	51,46%	6,3%	9,0%	33,7x	3,0x
Toyo Suisan Kaisha Ltd	6.518	3.735	3.827	215	26,80%	5,6%	7,8%	27,5x	2,1x
<b>South Korea</b>									
Samyang Foods Co Ltd	789	407	490	60	121,29%	12,2%	26,2%	13,4x	3,2x
Nongshim Co Ltd	1.917	2.297	2.067	77	11,60%	3,7%	4,7%	24,1x	1,1x
Ottogi Corporation	1.701	1.863	2.038	98	-27,61%	4,8%	9,2%	15,9x	1,4x
<b>Thailand</b>									
Thai President Foods	2.029	1.151	773	127	15,82%	16,4%	17,8%	16,3x	2,8x
Thai Union Group	2.055	4.769	4.137	115	-2,78%	2,8%	7,7%	18,9x	1,4x

Source: Bloomberg

### SOTP Valuation

	2020 NPAT	Multiples Assigned	% Ownership	Value
CBP (ICBP)	5.179	20,1x	80,50%	87.542
Bogasari	499	25,1x	100%	12.534
Agribusiness (SIMP)	41	25,1x	58,40%	2.956
Distribution	24	20,4x	100%	485
Add : Cash				17.657
Deduct : Debt				(27.637)
<b><u>Net Equity Value</u></b>				<b><u>93.536</u></b>
Holding Discount			25%	(23.384)
<b>Equity Per Share</b>				<b>8.000</b>
Discount SOTP at Current Price				<b>22%</b>

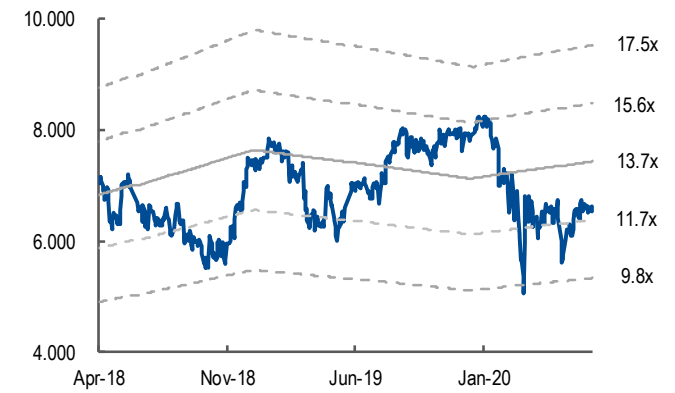
## Multiple Valuation

Forward P/E band | Last 3 years



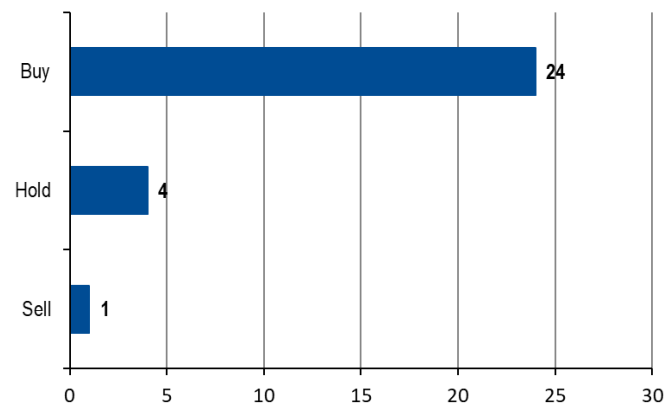
Source: NHKSI research

Dynamic Forward P/E band | Last 3 years



Source: NHKSI research

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI research

### NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
  - Buy : Greater than +15%
  - Hold : -15% to +15%
  - Sell : Less than -15%

## Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
<b>Sales</b>	<b>76.593</b>	<b>77.831</b>	<b>80.038</b>	<b>82.508</b>	ROE	9,4%	8,1%	9,5%	9,6%
<i>Growth</i>	4,4%	1,6%	2,8%	3,1%	ROA	5,1%	4,6%	5,5%	5,6%
COGS	(53.877)	(55.900)	(55.865)	(57.015)	ROIC	9,2%	8,8%	10,1%	10,4%
<b>Gross Profit</b>	<b>22.716</b>	<b>21.931</b>	<b>24.173</b>	<b>25.492</b>	Cash Dividend (IDR bn)	1.501	1.768	1.893	2.184
<i>Gross Margin</i>	29,7%	28,2%	30,2%	30,9%	Dividend Yield	2,2%	3,3%	2,8%	3,2%
Operating Expenses	(12.924)	(13.133)	(13.506)	(13.922)	Payout Ratio	36,0%	36,0%	42,3%	39,3%
<b>EBIT</b>	<b>9.792</b>	<b>8.798</b>	<b>10.667</b>	<b>11.570</b>	DER	40,5%	39,8%	38,8%	37,5%
<i>EBIT Margin</i>	12,8%	11,3%	13,3%	14,0%	Net Gearing	33,9%	28,3%	17,2%	6,1%
Depreciation	3.048	2.975	3.141	3.332	LT Debt to Equity	16,5%	14,7%	14,4%	13,9%
<b>EBITDA</b>	<b>12.840</b>	<b>11.772</b>	<b>13.809</b>	<b>14.902</b>	Capitalization Ratio	28,8%	28,5%	28,0%	27,3%
<i>EBITDA Margin</i>	16,8%	15,1%	17,3%	18,1%	Equity Ratio	56,3%	57,2%	58,0%	58,8%
Interest Expenses	(1.462)	(1.244)	(1.201)	(1.288)	Debt Ratio	22,8%	22,8%	22,5%	22,0%
<b>EBT</b>	<b>8.749</b>	<b>7.980</b>	<b>9.905</b>	<b>10.733</b>	Financial Leverage	181,9%	185,4%	173,3%	169,5%
Income Tax	(2.847)	(2.597)	(3.223)	(3.493)	Current Ratio	106,6%	127,2%	130,0%	138,6%
Minority Interest	(994)	(994)	(907)	(1.126)	Par Value (IDR)	100	100	100	100
<b>Net Profit</b>	<b>4.908</b>	<b>4.476</b>	<b>5.556</b>	<b>6.021</b>	Total Shares (mn)	8.780	8.780	8.780	8.780
<i>Growth</i>	17,8%	-8,8%	24,1%	8,4%	Share Price (IDR)	7.925	6.050	7.825	7.825
<i>Net Profit Margin</i>	6,4%	5,8%	6,9%	7,3%	Market Cap (IDR tn)	69,6	53,1	68,7	68,7

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
Cash	13.745	14.803	18.270	22.045	Price /Earnings	14,2x	11,9x	12,4x	11,4x
Receivables	5.406	5.844	5.710	5.917	Price /Book Value	1,3x	0,9x	1,1x	1,1x
Inventories	9.659	10.535	10.705	10.544	Price/Sales	0,9x	0,7x	0,9x	0,8x
<b>Total Current Assets</b>	<b>31.403</b>	<b>33.639</b>	<b>37.141</b>	<b>40.964</b>	PE/EPS Growth	0,8x	-1,3x	0,5x	1,4x
Net Fixed Assets	43.387	44.342	45.682	47.053	EV/EBITDA	8,1x	7,4x	7,3x	6,5x
Other Non Current Asset	64.795	65.798	67.114	68.497	EV/EBIT	10,6x	9,9x	9,4x	8,4x
<b>Total Assets</b>	<b>96.199</b>	<b>99.437</b>	<b>104.255</b>	<b>109.461</b>	EV (IDR bn)	104.054	87.201	100.173	97.050
Payables	4.522	4.212	4.449	4.419	Sales CAGR (3-Yr)	4,6%	4,7%	3,5%	2,9%
ST Bank Loan	13.006	14.247	14.784	15.195	EPS CAGR (3-Yr)	5,8%	2,6%	10,1%	7,0%
LT Debt	8.948	8.376	8.692	8.933	Basic EPS (IDR)	559	510	633	686
<b>Total Liabilities</b>	<b>41.996</b>	<b>42.596</b>	<b>43.753</b>	<b>45.120</b>	Diluted EPS (IDR)	559	510	633	686
Capital Stock	1.162	1.162	1.162	1.162	BVPS (IDR)	6.173	6.474	6.891	7.328
Retained Earnings	26.780	29.418	33.081	36.918	Sales PS (IDR)	8.723	8.864	9.116	9.397
<b>Shareholders' Equity</b>	<b>54.203</b>	<b>56.840</b>	<b>60.503</b>	<b>64.340</b>	DPS (IDR)	171	201	216	249

CASH FLOW STATEMENT					OWNERSHIP			
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E	By Geography	% Shareholders	%	
Operating Cash Flow	13.345	6.156	9.033	9.969	Unknown	81,9	FPIML	50,1
Investing Cash Flow	(584)	(4.000)	(4.526)	(4.662)	United States	9,7	Vanguard Group Inc	1,8
Financing Cash Flow	(7.660)	(1.098)	(1.041)	(1.531)	Luxembourg	1,5	Blackrock	1,5
<b>Net Changes in Cash</b>	<b>5.100</b>	<b>1.058</b>	<b>3.466</b>	<b>3.776</b>	Ireland	1,0	Dimensional Fund A.	1,5

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